

**DETROIT COMMUNITY HIGH SCHOOL
WAYNE COUNTY, MICHIGAN
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005**

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I. INDEPENDENT AUDITORS' REPORTS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Detroit Community High School
12675 Burt Road
Detroit, Michigan 48223

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Detroit Community High School, Wayne County, Michigan, as of and for the year ended June 30, 2005, which collectively comprise Detroit Community High Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Detroit Community High Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Detroit Community High School, Wayne County, Michigan, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2005, on our consideration of Detroit Community High Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the

scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Detroit Community High Schools' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Butala, Simmons, Camilleri & Pate, P.C.

October 28, 2005

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Detroit Community High School
12675 Burt Road
Detroit, Michigan 48223

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Detroit Community High School, Wayne County, Michigan, as of and for the year ended June 30, 2005, which collectively comprise Detroit Community High Schools' basic financial statements and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Detroit Community High Schools' internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Detroit Community High Schools' financial statements are free of material misstatement, we performed tests of its compliance with

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certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of education, management and Michigan Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Butala, Simmons, Camilleri & Pate, P.C.

October 28, 2005

II. MANAGEMENT'S DISCUSSION AND ANALYSIS

Detroit Community High School

Management's Discussion and Analysis

Detroit Community High School, a Michigan Public School Academy, has the legal standing of a "School District", but will be referred to as "The Academy". This section of The Academy's annual financial report represents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2005. Please read it in conjunction with the Academy's financial statements which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Academy as a whole financially. The Academy's Financial Statements provide information about the activities of the Academy, and presents both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, the statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy's financial statements by providing information about the most significant fund; the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Academy acts solely as agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

District-wide Financial Statements
Fund Financial Statements

Notes to Financial Statements

(Required Supplemental Information)
Budgetary Information for the General Fund

Other Supplemental Information

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Management's Discussion and Analysis (continued)

Reporting the Academy as a Whole - Academy-wide Financial Statements (continued)

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases and decreases in the Academy's net assets-as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. The \$30,068 increase in net assets is not deemed significant. The Academy's goal is to provide services to our students, not to generate profit as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net assets and statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, athletics, and food services. Unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities. The Academy also has building and site activities, which are included, but these are generally supported through debt.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds, not the Academy as a whole. Some funds are required to be established by State law. However, the Academy establishes other funds to help it control and manage money or to show it is meeting legal responsibilities for using certain grants, or other money. The governmental funds of the Academy use the following accounting approach:

Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The Academy as Trustee - Reporting the Academy's Fiduciary Responsibilities

The Academy is the trustee, or fiduciary, for its student activity funds. All of the Academy's fiduciary activities are reported in the separate statement of fiduciary net assets. We exclude these activities from the Academy's other financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Detroit Community High School

Management's Discussion and Analysis (continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2005:

Table I	Governmental Activities (in millions)	
	2004	2005
Assets		
Current and other assets	\$ 0.70	\$ 0.96
Capital assets -		
Net of accumulated depreciation	0.17	2.35
Total assets	<u>\$ 0.87</u>	<u>\$ 3.31</u>
Liabilities		
Current Liabilities	\$ 0.25	\$ 2.69
Long-term Liabilities	0.07	0.05
Total liabilities	<u>\$ 0.32</u>	<u>\$ 2.74</u>
Net Assets		
Invested in property and equipment -		
Net of related debt	\$ 0.12	\$ 1.46
Unrestricted (Deficit)	0.43	(0.88)
Total net assets	<u>\$ 0.55</u>	<u>\$ 0.58</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were \$.58 million at June 30, 2005. Capital assets, net of related debt, compares the original cost, less depreciation of the Academy's capital assets to long-term debt which was used to finance the acquisition of those assets.

The \$(0.88) million deficit represents the *accumulated* results of all past years' operations. The operating results of the General and Building and Site Funds will have a significant impact on the change in unrestricted net assets from year to year. During the year ended June 30, 2005, the Academy acquired land and buildings to be used for future educational facilities. It began renovation of these facilities prior to the issuance of their bonds (as further described under **Debts**) resulting in a decrease in unrestricted net assets of \$1.2 million.

Detroit Community High School

Management's Discussion and Analysis (continued)

The Academy as a Whole (continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2005.

Table 2	Governmental Activities (in millions)	
	2004	2005
Revenue		
Program revenue:		
Charges for services	\$ 0.00	\$ 0.00
Grants and categoricals	0.33	0.40
General revenue:		
State foundation allowance	2.22	2.59
Other	0.01	0.01
Total revenue	\$ <u>2.56</u>	\$ <u>3.00</u>
Functional/Program Expenses		
Instruction	\$ 1.34	\$ 1.51
Support services	1.13	1.36
Food services	0.04	0.05
Athletics	0.04	0.05
Total expenses	\$ <u>2.55</u>	\$ <u>2.97</u>
Increase in Net Assets	\$ <u>0.01</u>	\$ <u>0.03</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$2.6 million. Certain activities were partially funded from those individuals that benefited from the programs or by other governments and organizations that subsidized certain programs with grants and categoricals (\$.40 million). We paid for the remaining "public benefit" portion of our government activities with \$2.59 million in State Foundation Allowance, and with our other revenues, such as tuition and general entitlements.

The Academy experienced an insignificant increase in net assets.

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources taxpayers, via the State Foundation, and others provide to it and may provide more insight into the Academy's overall financial health.

The Academy's general fund experienced a decrease of \$.04 million, primarily due to expenditures related to the renovation of future educational facilities.

Detroit Community High School

Management's Discussion and Analysis (continued)

The Academy's Funds (continued)

The Academy opened a Building and Site fund to account for the activities related to the acquisition and renovation of their future educational facilities. These activities are expected to be funded by bonds which were issued after June 30, 2005. This delay in the sale of bonds resulted in a \$1.2 million deficit for the year ended June 30.

Our special revenue funds, food service and athletics, continue to require general fund support because of their small size. Revenues in both areas have increased over the prior years.

General Fund Budgetary Highlights

Over the course of the year, the Academy can revise its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure the expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. One amendment was made to reclassify expenditures to more accurately follow changes which were made in the State of Michigan chart of accounts.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the Academy had \$2.35 million invested in a broad range of capital assets, including land and building, furniture and equipment, computers and vehicles. This amount represents a net increase (including additions and disposals) of approximately \$.223 million from last year. This included \$2.17 million in costs in connection with the future acquisition and renovation of Academy facilities.

	2004	2005
Land and building	\$ 0	\$ 2,170,689
Furniture and equipment	72,479	87,967
Computers	44,555	117,886
Vehicles	71,841	71,841
Total capital assets	188,875	2,448,383
Less accumulated depreciation	63,780	97,340
Net capital assets	\$ 125,095	\$ 2,351,043

We present more detail information about our capital assets in the notes to the financial statements.

Debts

The Academy had \$1.37 million in current and \$.02 million in long term debt as of June 30, 2005. In prior years, the Academy purchased vehicles, \$.03 million relates to that continuing debt. In September 2004, \$.86 million in debt was issued to purchase land and a building. A state aid note for \$.5 million was also issued to help fund current activities including costs in connection with the future facilities.

Management's Discussion and Analysis (continued)

Capital Asset and Debt Administration (continued)

Debts (continued)

Subsequent to year end:

1. The Academy entered into a lease/purchase arrangement for modular classrooms, which currently house grades 9 through 12. The total amount was approximately \$.87 million, which requires interest only payments until November 2005, at which time monthly payments include both interest and principal.
2. In August 2005, the Academy issued \$11.87 million in Revenue Bonds to finance the building and site operations, including the previous purchase of the Burt Road facility and the continuing renovations of that location. Interest payments have been prefunded until November 2008 when interest and principal payments on these bonds will require Academy funds.

Economic Factors and Next Year's budgets and Rates

Based on early enrollment data for the subsequent school year, we anticipate that the fall student count will be greater than the estimates used in creating the 2005 fiscal year budget. Once the final student count and related pupil funding is validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriation. In addition in August 2005, the Academy acquired an elementary school which currently includes K-5 students, therefore the Academy expects to amend its preliminary budget.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aic Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contacting the Academy's Financial Management

This financial report is designed to provide the Academy's customers, investors and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Department, 12675 Burt Rd. Detroit, Mi. 48223

III. FINANCIAL STATEMENTS

DETROIT COMMUNITY HIGH SCHOOL

STATEMENT OF NET ASSETS

June 30, 2005

	Government Activities
	<hr/>
ASSETS	
Cash	\$ 275,107
Accounts receivable	2,345
Due from other governmental units	628,362
Prepaid expenses	62,702
Capital assets, less accumulated depreciation	<hr/> 2,351,043
TOTAL ASSETS	\$ 3,319,559
	<hr/>
LIABILITIES	
Accounts payable	\$ 1,128,686
Notes payable, due within one year (Note 6)	1,367,102
Payroll withholdings	17,419
Accrued expenditures	74,295
Salaries payable	92,529
Deferred revenue (Note 5)	32,198
Notes payable, due in more than one year (Note 6)	<hr/> 22,979
TOTAL LIABILITIES	\$ 2,735,208
	<hr/>
NET ASSETS	
Investment in capital assets, net of related debt	\$ 1,460,962
Unrestricted (Deficit)	<hr/> (876,611)
TOTAL NET ASSETS	\$ 584,351
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 3,319,559
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The accompanying notes are an integral part of the financial statements.

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DETROIT COMMUNITY HIGH SCHOOL

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2005

FUNCTIONS/PROGRAMS	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities
				Net(Expense) Revenue and Changes in Net Assets
PRIMARY GOVERNMENT, GOVERNMENTAL ACTIVITIES				
Instruction	\$ 1,508,637	\$ 0	\$ 372,218	\$ (1,136,419)
Support services	1,360,125	0	0	(1,360,125)
Food service activities	50,461	951	25,962	(23,548)
Athletics	52,601	2,835	0	(49,766)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 2,971,824	\$ 3,786	\$ 398,180	(2,569,858)
GENERAL REVENUES:				
State aid, unrestricted				2,589,790
Other income				10,136
TOTAL GENERAL REVENUES				2,599,926
CHANGE IN NET ASSETS				30,068
NET ASSETS, July 1, 2004				554,283
NET ASSETS, June 30, 2005				\$ 584,351

The accompanying notes are an integral part of the financial statements.

Butala, Simmons, Camilleri and Pate, P.C.

Certified Public Accountants

DETROIT COMMUNITY HIGH SCHOOL

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2005

	<u>General Fund</u>	<u>Building and Site Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash	\$ 275,107	\$ 0	\$ 0	\$ 275,107
Accounts receivable	2,345	0	0	2,345
Due from other funds	360,867	0	0	360,867
Due from other governmental units	613,596	0	0	613,596
Prepaid expenses	<u>62,702</u>	<u>0</u>	<u>0</u>	<u>62,702</u>
TOTAL ASSETS	\$ <u>1,314,617</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>1,314,617</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accounts payable	\$ 250,168	\$ 878,518	\$ 0	\$ 1,128,686
State aid note	500,000	0	0	500,000
Due to other funds	0	360,867	0	360,867
Payroll withholdings	17,419	0	0	17,419
Accrued expenditures	74,295	0	0	74,295
Salaries payable	92,529	0	0	92,529
Deferred revenue	<u>32,198</u>	<u>0</u>	<u>0</u>	<u>32,198</u>
TOTAL LIABILITIES	966,609	1,239,385	0	2,205,994
FUND BALANCE:				
Reserved for inventories and and prepaid expenses	62,702	0	0	62,702
Unreserved:				
Undesignated (Deficit)	<u>285,306</u>	<u>(1,239,385)</u>	<u>0</u>	<u>(954,079)</u>
TOTAL FUND BALANCE	<u>348,008</u>	<u>(1,239,385)</u>	<u>0</u>	<u>(891,377)</u>
TOTAL LIABILITIES AND AND FUND BALANCE	\$ <u>1,314,617</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>1,314,617</u>

The accompanying notes are an integral part of the financial statements.

Butala, Simmons, Camilleri and Pate, P.C.

Certified Public Accountants

DETROIT COMMUNITY HIGH SCHOOL

GOVERNMENTAL FUNDS RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

June 30, 2005

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ (891,377)
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds.

The cost of the capital assets is	2,448,383
Accumulated depreciation is	(97,340)

Other long-term assets not available to pay current period expenditures therefore deferred in the governmental funds	14,766
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Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	(890,081)
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Interest in accrued expenses is not included as a liability in the governmental funds	<u>0</u>
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ <u>584,351</u>
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The accompanying notes are an integral part of the financial statements.

Butala, Simmons, Camilleri and Pate, P.C.
Certified Public Accountants

DETROIT COMMUNITY HIGH SCHOOL

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 2005

	<u>General Fund</u>	<u>Building and Site Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Totals</u>
REVENUES				
Local sources	\$ 10,136	\$ 0	\$ 3,786	\$ 13,922
State sources	2,724,468	0	2,474	2,726,942
Federal sources	268,367	0	23,488	291,855
TOTAL REVENUES	<u>3,002,971</u>	<u>0</u>	<u>29,748</u>	<u>3,032,719</u>
EXPENDITURES				
Current:				
Instruction	1,500,041	0	0	1,500,041
Support services	1,324,396	10,222	0	1,334,618
Food service activities	0	0	50,461	50,461
Athletics	0	0	52,601	52,601
Capital outlay	88,819	2,128,086	0	2,216,905
TOTAL EXPENDITURES	<u>2,913,256</u>	<u>2,138,308</u>	<u>103,062</u>	<u>5,154,626</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	89,715	(2,138,308)	(73,314)	(2,121,907)
OTHER FINANCING SOURCES (USES):				
Proceeds from debt	0	855,000	0	0
Prior period adjustments, non material	(543)	0	0	(543)
Debt service	(11,410)	0	0	(11,410)
Operating transfers:				
Incoming	0	43,923	73,314	117,237
Outgoing	(117,237)	0	0	(117,237)
NET CHANGE IN FUND BALANCE	<u>(39,475)</u>	<u>(1,239,385)</u>	<u>0</u>	<u>(1,278,860)</u>
FUND BALANCE, July 1, 2004	<u>387,483</u>	<u>0</u>	<u>0</u>	<u>387,483</u>
FUND BALANCE, June 30, 2005	<u>\$ 348,008</u>	<u>\$ (1,239,385)</u>	<u>\$ 0</u>	<u>\$ (891,377)</u>

The accompanying notes are an integral part of the financial statements.

Butala, Simmons, Camilleri and Pate, P.C.

Certified Public Accountants

DETROIT COMMUNITY HIGH SCHOOL

GOVERNMENTAL FUNDS RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2005

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (1,278,860)**

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds reported capital outlays as expenditures,
but in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation.

Capital outlay	\$ 2,216,905	
Depreciation expense	(33,560)	
Loss on disposal of capital assets	<u>0</u>	
Total		2,183,345

Revenues reported in the statement of activities that do not provide
current financial resources and are not reported as revenues
in the governmental funds

Prior year	\$ (45,593)	
Current year	<u>14,766</u>	(30,827)

Some of the capital outlay was financed with a note payable. The
note payable is not revenue on the statement of activity, but
constitutes a long-term liability in the statement of net assets.

(855,000)

Repayment of loan principal is an expenditure in the governmental
funds (general fund), but not in the statement of activities
(where it reduces long-term debt)

11,410

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 30,068**

The accompanying notes are an integral part of the financial statements.

Butala, Simmons, Camilleri and Pate, P.C.

Certified Public Accountants

DETROIT COMMUNITY HIGH SCHOOL

FIDUCIARY FUNDS STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2005

	Agency Fund Internal Activities
	<u> </u>
ASSETS	
Cash	\$ 17,275
Investments	<u>0</u>
TOTAL ASSETS	\$ <u>17,275</u>
LIABILITIES	
Accounts payable	\$ 2,345
Due to student organizations	<u>14,930</u>
TOTAL LIABILITIES	\$ <u>17,275</u>

The accompanying notes are an integral part of the financial statements.

Butala, Simmons, Camilleri and Pate, P.C.
Certified Public Accountants

DETROIT COMMUNITY HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

REPORTING ENTITY

The District has a contract with the Saginaw Valley State University Board of Control which expires on June 30, 2007. The District is governed by a Board of Directors (Board) appointed by the University. The Board receives funding from local, state and federal sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements. It is considered to be a potential component unit of the University because the University appoints the Board of the District, but has no financial benefit or burden relationship with the District.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

The **District-wide** financial statements include the statement of net assets and the statement of activities. These statements report all nonfiduciary activities of the primary government. Government activities are generally supported by taxes and intergovernmental revenues, and are reported separately from business-type activities which are financed in whole or in part by fees charged to external parties for goods and services. The focus of the district -wide statements is the primary government.

The **statement of net assets** presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets.

The **statement of activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental and fiduciary finds, even though the latter is excluded from the district-wide financial statements. Major individual governmental funds are reported as separated columns in the fund financial statements.

DETROIT COMMUNITY HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

District-wide financial statements

The district-wide financial statements are reported using the economic resources measurements focus and the accrual basis of accounting. Revenue is recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated for the district-wide financial statements.

Governmental fund financial statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using economic resources measurement focus and the accrual basis of accounting.

Financial statement presentation

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources, except those required to be accounted for in another fund.

The Building and Site Fund is used to account for the proceeds from the sale of bonds and other revenues to be used for the acquisition and renovation of fixed assets.

For capital project activities funded with bonds issued after May 1, 1994, the District has complied with the applicable provisions of section 1351a of the State of Michigan School Code.

DETROIT COMMUNITY HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Financial statement presentation (continued)

In addition, the District reports the following fund types:

Special Revenue Funds account for specific revenue sources that are legally restricted to expenditure for specified purposes. The Athletic Activities and School Lunch are special revenue funds.

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency funds are custodial in nature and do not involve measurement of results of operations.

The district maintains one fiduciary fund. The Internal Activities represents the activities of the student and parent groups for school and related purposes and is considered an agency fund.

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

Cash and cash equivalents include cash on hand and in local banks. Cash and **investments** are reported at fair value. The District has no investments at this time.

Receivables consist primarily of expenditure refunds and amounts due from other government units.

The State of Michigan uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. The allowance is based on the pupil membership counts taken in February and September 2004.

Federal grant and certain State categorical funds are considered to be earned to the extent of expenditures made under their provisions and, accordingly, when such funds are received they are recorded as deferred revenue until earned. Amounts receivable are reported as due from other governmental units.

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are expensed using the consumption method. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as **prepaid expenses** in both the district-wide and governmental fund financial statements.

Capital Assets, which include land, buildings, equipment, and vehicles, are defined by the government as assets with an initial individual or aggregate cost of more than \$500. These assets are recorded at cost. Donated capital assets are recorded at fair market value at the date of donation. The District does not have infrastructure-type assets.

DETROIT COMMUNITY HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	20	Years
Buildings and improvements	20-50	Years
Vehicles	5	Years
Furniture and equipment	5-15	Years

Long-term Obligations are reported as liabilities in the district-wide financial statements. Bond issuance costs, premiums and discounts, if material, are deferred and amortized over the life of the bonds using the effective interest method.

The difference between assets and liabilities is **Net Assets** on the district-wide and fiduciary fund financial statements, and **Fund Balance** on the governmental fund financial statements. Net assets are reported in three categories.

Investment in capital assets, net of related debt as reported in the district-wide financial statements, consists of capital assets, net of accumulated depreciation and further reduced by the outstanding balances of notes that are attributed to the acquisition, construction or improvement of those assets.

Restricted for specific use net assets consist of assets that have externally imposed constraints placed on them through regulations imposed by other governments.

Unrestricted net assets consists of assets that do not meet the two preceding criteria.

Reservations of fund balance in the governmental fund financial statements represent amounts that are not available for appropriation. **Designations** of fund balance represent tentative management plans that are subject to change.

NOTE 2 BUDGETARY INFORMATION

The District is required by state law to adopt an annual budget on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. Prior to July 1, the budget is legally adopted by the Board of Education. Once approved, the budget can be amended by a majority of the Board. Budgets are passed at the function level and controlled by management at the object level.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at year-end and outstanding encumbrances, if any, are reappropriated in the next year. Encumbrances outstanding at the end of the year are reported as reservations of fund balance. There were no encumbrances outstanding at year end.

DETROIT COMMUNITY HIGH SCHOOL

Butala, Simmons, Camilleri and Pate, P.C.
Certified Public Accountants

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3 CASH AND INVESTMENTS

State laws authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

School District cash is subject to different types of risk. This District is subject to risk as described below.

Custodial credit risk of bank deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District only uses financial institutions which are evaluated to have an acceptable risk level. The FDIC insures a limited amount of the District's deposits. It is impractical for the District to have all deposits insured. At year end, the District had \$ 414,781 in funds deposited at banks, of which \$ 314,781 was uninsured.

DETROIT COMMUNITY HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 4 CAPITAL ASSETS

	Balance July 1, 2004	Additions	Disposals and adjustments	Balance June 30, 2005
Capital assets not being depreciated,				
Land and improvements	\$ 0	\$ 132,754	\$ 0	\$ 132,754
Building and improvements	<u>42,603</u>	<u>1,995,332</u>	<u>0</u>	<u>2,037,935</u>
Total capital assets not being depreciated	\$ <u>42,603</u>	\$ <u>2,128,086</u>	\$ <u>0</u>	\$ <u>2,170,689</u>
Capital assets being depreciated:				
Furniture and equipment:				
Furniture and equipment	\$ 72,479	\$ 15,488	\$ 0	\$ 87,967
Computers	<u>44,555</u>	<u>73,331</u>	<u>0</u>	<u>117,886</u>
	<u>117,034</u>	<u>88,819</u>	<u>0</u>	<u>205,853</u>
Vehicles	<u>71,841</u>	<u>0</u>	<u>0</u>	<u>71,841</u>
Total capital assets being depreciated	\$ <u>188,875</u>	\$ <u>88,819</u>	\$ <u>0</u>	\$ <u>277,694</u>
Accumulated depreciation:				
Furniture and equipment:				
Furniture and equipment	\$ 18,037	\$ 11,099	\$ 0	\$ 29,136
Computers	<u>27,596</u>	<u>8,093</u>	<u>0</u>	<u>35,689</u>
	<u>45,633</u>	<u>19,192</u>	<u>0</u>	<u>64,825</u>
Vehicles	<u>18,147</u>	<u>14,368</u>	<u>0</u>	<u>32,515</u>
Total accumulated depreciation	\$ <u>63,780</u>	\$ <u>33,560</u>	\$ <u>0</u>	\$ <u>97,340</u>
Net capital assets being depreciated	\$ <u>125,095</u>	\$ <u>55,259</u>	\$ <u>0</u>	\$ <u>180,354</u>
Net capital assets	\$ <u><u>167,698</u></u>	\$ <u><u>2,183,345</u></u>	\$ <u><u>0</u></u>	\$ <u><u>2,351,043</u></u>

DETROIT COMMUNITY HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 4 CAPITAL ASSETS (continued)

Depreciation expense was charged to activities of the District as follows:

Governmental activities:

Instruction	\$	8,596
Support services		<u>24,964</u>
Total governmental activities	\$	<u><u>33,560</u></u>

NOTE 5 DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants and categorical aid payments received prior to meeting all eligibility requirements	\$ <u>14,766</u>	\$ <u>32,198</u>

NOTE 6 NOTES PAYABLE

Line of Credit

The District has a letter of agreement with a third party, which is substantially a line of credit, with a maximum amount of \$ 350,000. The agreement is for operating and cash flow purposes. The line is secured by State foundation funds. Interest, which is added to the principal balance monthly, is based on a calculation using the 13-week US Treasury rate plus 3.25%. The agreement ended on June 29, 2005, at which time the entire balance was paid. The total interest paid by the Academy of \$ 16,713, includes \$ 14,185 for this activity. Activity was as follows:

\$ <u>0</u>	\$ <u>323,000</u>	\$ <u>323,000</u>	\$ <u>0</u>
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State Aid Note

The District issued a State Aid note for \$ 500,000 for additional cash flow purposes. Payments of approximately \$ 65,000, including interest at 6.00 %, are required from October 2005 through May 2006. This note will be paid in full at that time.

DETROIT COMMUNITY HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 7 LONG-TERM DEBT:

During the year ended June 30, 2003, the District purchased three vans for a cost of approximately \$75,000 by issuing long-term debt. Each of the three notes was for \$ 19,972 and requires payments of approximately \$ 384 including interest at 5.9%. The notes mature in March 2008.

In September 2004, the District issued a note for the purchase of land and a building for future facilities. The amount of the note was \$855,000. This note was originally issued as long term debt, but was refinanced with the sale of bonds (see NOTE 10).

Long-term obligation activity can be summarized as follows:

	Notes
Beginning balance	\$ 46,491
Additions	855,000
Reductions	(11,410)
Ending balance	890,081
Amount due within one year	(867,102)
Amount due in more than one year	\$ 22,979

Annual debt service requirements to maturity for the above governmental note obligations are as follows:

	Principal	Interest	Total
2006	\$ 867,102	\$ 51,383	\$ 918,485
2007	12,836	1,012	13,848
2008	10,143	241	10,384
	<u>\$ 890,081</u>	<u>\$ 52,636</u>	<u>\$ 942,717</u>

DETROIT COMMUNITY HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 8 RENTAL EXPENDITURES

The District rents its educational facilities under an operating lease with a one-year term which expired June 30, 2005. Rental payments were \$ 21,000 per month, plus \$ 4,150 per month for utilities. Rental expenditures of \$ 252,000 are included in operations for the year ended June 30, 2005. In July 2005, the District agreed to rent on a month-to-month basis in anticipation of moving to their new facilities, for \$36,000 per month.

NOTE 9 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded insurance coverage since inception.

FEDERAL PROGRAMS

The District participates in numerous federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and collectibility of any receivable at June 30 may be impaired. In the opinion of the District, there are no significant liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

DETROIT COMMUNITY HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 9 DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

The District provides pension benefits for substantially all of its employees through the Michigan Public School Employees' Retirement System Pension Plan (MPERS), a cost-sharing, multiple employer public employee retirement system. MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. MPERS issues a publicly available financial report which includes financial statement and required supplementary information. A copy of the report may be obtained by writing to MPERS at 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909-7671.

State legislation required that the District contribute 12.99% of covered payroll from July through September 2004 and 14.87% from October 2004 through June 2005. No employee contributions are required. Expenditures under this plan amounted to approximately \$ 199,000, \$ 156,000 and \$ 155,700 for the years ended June 30, 2005, 2004 and 2003, respectively.

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for health, dental and vision coverage's.

On or after January 1, 1987 and before January 1, 1990, a MPERS member may have elected to contribute 4 percent of gross wages on a tax deferred basis to a "member investment plan" (MIP) that qualifies them for additional benefits. For these members, the contribution rate for wages received January 1, 1990 and later is permanently reduced to 3.9 percent. Employees first hired on or after January 1, 1990 will automatically be included in the MIP program with a graduated contribution rate of 3 percent to 4.3 percent of all wages. Two other differences between the MIP plan and the basic plan are that MIP members can retire at any age with thirty years of credited service or at age 60 with five years of service and the final average compensation period used is 3 years.

NOTE 10 SUBSEQUENT EVENTS

Sale of Bonds

In August 2005, the District issued \$ 11,865,000 of revenue bonds to finance the renovation and equipping of the District's future educational facilities.

Modular Classrooms

On July 1, 2005, District entered into a lease/purchase agreement for approximately \$900,000 relating to modular classrooms and offices to be used until their building is available for use.

Expansion of services

For the school year beginning September 2005, the District expanded its services to include certain elementary grades. This expansion resulted in approximately a 40 percent increase in its student base.

DETROIT COMMUNITY HIGH SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended June 30, 2005

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Local sources:	\$ 10,600	\$ 10,600	\$ 10,136
State sources:	2,542,760	2,542,760	2,724,468
Federal sources	247,374	247,374	268,367
TOTAL REVENUES	2,800,734	2,800,734	3,002,971
EXPENDITURES:			
Instruction:			
Basic programs	1,312,605	1,343,014	1,339,358
Added needs	324,374	279,565	240,957
Support services:			
Pupil services	129,830	129,830	142,003
Instructional staff	2,000	15,400	30,231
General administration	174,442	174,442	174,389
School administration	271,411	271,411	275,053
Business services	81,562	81,562	156,695
Operation and maintenance	426,200	426,200	542,665
Transportation	23,100	14,100	10,637
Central	1,500	1,500	1,268
TOTAL EXPENDITURES	2,747,024	2,737,024	2,913,256
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	53,710	63,710	89,715
OTHER FINANCING SOURCES (USES),			
Prior period adjustments, non material	0	0	(543)
Debt service	0	(10,000)	(11,410)
Operating transfers out	(53,710)	(53,710)	(117,237)
NET CHANGE IN FUND BALANCES	0	0	(39,475)
FUND BALANCE, July 1, 2004	387,483	387,483	387,483
FUND BALANCE, June 30, 2005	\$ 387,483	\$ 387,483	\$ 348,008

DETROIT COMMUNITY HIGH SCHOOL

NONMAJOR GOVERNMENTAL FUNDS - COMBINING STATEMENT OF REVENUE EXPENDITURES AND CHANGES IN FUND BALANCES

June 30, 2005

		Special Revenue Funds		
		Athletic Activities	School Lunch	Total
REVENUES				
Local		\$ 2,835	\$ 951	\$ 3,786
State		0	2,474	2,474
Federal		0	23,488	23,488
TOTAL REVENUES		2,835	26,913	29,748
EXPENDITURES				
Current:				
Food services		0	50,461	50,461
Athletics		52,601	0	52,601
TOTAL EXPENDITURES		52,601	50,461	103,062
Excess of Revenues Over (under) expenditures		(49,766)	(23,548)	(73,314)
Other Financing Sources, transfer in		49,766	23,548	73,314
NET CHANGE IN FUND BALANCES		0	0	0
FUND BALANCES, July 1, 2004		0	0	0
FUND BALANCES, June 30, 2005		\$ 0	\$ 0	\$ 0